BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

Petition by Global NAPs, Inc. for arbitration pursuant to 47 U.S.C. 252(b) of interconnection rates, terms and conditions with Verizon Florida Inc.	))))	Docket No. 011666-TP

DIRECT TESTIMONY OF
TERRY HAYNES
ON BEHALF OF
VERIZON FLORIDA INC.

MAY 8, 2002

DIRECT TESTIMONY OF TERRY HAYNES

I. WITNESS BACKGROUND AND OVERVIEW

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION WITH VERIZON.

A. My name is Terry Haynes. My current business address is 600 Hidden Ridge, Irving, Texas 75015. I am a manager in the State Regulatory Policy and Planning group supporting the Verizon states formerly associated with GTE. I am testifying here on behalf of Verizon Florida Inc. ("Verizon").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I received a Bachelor of Arts Degree in Philosophy from the University of South Carolina in 1973. Since 1979, I have been employed by Verizon and its predecessor companies. I have held positions in Operations, Technology Planning, Service Fulfillment and State and Federal Regulatory Matters.

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.

A. The purpose of my testimony is to address Issues 4 and 5, including the disputed contract language associated with those issues, as identified below:

Issue No.	Statement of Issue	Disputed Contract Sections Related to Issue
4	"Which carrier's local calling area should be used as the basis for determining inter-carrier compensation obligations?	Glossary § 2.34, 2.47, 2.56, 2.75, 2.83, 2.91; Interconnection attachment §§ 6.2, 7.3.4.
5	"Should GNAPs be permitted to assign NXX codes to customers that do not physically reside in the local calling area associated with that NXX code?	Glossary §§ 2.34, 2.47, 2.56, 2.75, 2.83, 2.91; Interconnection attachment 6.2, 7.3.4

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. With respect to Issue 4, the parties should remain free to determine their own retail local calling areas, but Verizon's tariffed local calling areas should continue to be the basis for defining reciprocal compensation obligations. GNAPs' suggestion to move away from the status quo to allowing the ALEC to define the local calling area for reciprocal compensation purposes raises broad policy issues that are best addressed in the ongoing generic docket (number 000075-TP) concerning this issue. Pending outcome of Docket No. 000075-TP, and an opportunity to evaluate the timing and impact of the generic ruling on the parties' rights and obligations, the most appropriate

course is to continue to use Verizon's calling areas for reciprocal compensation purposes.

With respect to Issue 5, Verizon does not propose any contract language that would stop GNAPs from assigning telephone numbers to end users located outside of the rate center to which those numbers are homed. Rather, Verizon's proposed contract language ensures that GNAPs cannot impermissibly alter the appropriate intercarrier compensation due by virtue of GNAPs' assignment of "virtual NXX" codes. This language comports with the Commission's ruling in Docket number 000075-TP that compensation for calls terminated to telephone numbers outside of the rate center should be based on the customer's actual location (rather than the NXX code). Because GNAPs' virtual NXX traffic is not local in nature, access charges will continue to apply to this traffic, rather than reciprocal compensation.

II. ISSUE 4: LOCAL CALLING AREAS USED FOR RECIPROCAL COMPENSATION

Q. WHERE ARE LOCAL CALLING AREAS DEFINED?

A. The ILECs' retail local calling areas, including Verizon's, are defined in its Commission-approved tariffs. The ALECs set their own local calling areas, and they are reflected in price lists or tariffs filed with the Commission. The ruling on this issue will not affect the ability of Verizon or GNAPs to define their own local calling areas for retail purposes.

Q. WHAT SHOULD BE THE BASIS FOR DETERMINING INTERCARRIER COMPENSATION OBLIGATIONS?

A. The Commission should maintain the status quo—that is, approve use of Verizon's local calling areas for purposes of applying intercarrier compensation. This is the most administratively simple and competitively neutral approach.

Q. WHAT DOES GNAPS PROPOSE?

A. GNAPs proposes to use the local calling area as defined by the originating carrier. This proposal is most clearly set forth in GNAPs' proposed definitions of (i) "Reciprocal Compensation Traffic," Glossary § 2.75, (ii) "Extended Local Calling Scope Arrangement," Glossary § 2.34, and (iii) "Measured Internet Traffic," Glossary § 2.56. As an extension of this proposal, GNAPs proposes to define "IXC (Interexchange Carrier)," Glossary § 2.47, and "Toll Traffic," Glossary § 2.91, by reference to whether the party providing the service imposes a toll charge or not.

GNAPs' proposal is openly designed to allow it to avoid paying access charges on as much traffic as possible---on all traffic originated by a GNAPs customer within the LATA and perhaps even the nation.

Q. WHAT PRINCIPAL CONSIDERATIONS SHOULD GUIDE THE COMMISSION'S RULING ON THE LOCAL AREA FOR PURPOSES

OF DETERMINING INTERCARRIER COMPENSATION OBLIGATIONS?

A. The interconnection agreement's designation of the local calling area for reciprocal compensation purposes must: (1) avoid undermining the advancement and preservation of universal service, (2) be competitively neutral, (3) be administratively easy to implement, and (4) focus on the end user. Continued use of Verizon's Commission-approved local calling areas to define intercarrier compensation obligations serves these objectives. In contrast, none of these objectives will be met if the Commission adopts GNAPs' proposal to allow the originating carrier to define the local calling area for intercarrier compensation purposes.

Q. WHAT WOULD BE THE CHIEF CONSEQUENCE OF ADOPTING GNAPS' PROPOSAL ?

A. GNAPs' proposal would obliterate the local/toll distinction that this Commission has maintained for decades. This distinction is not accidental; rather, it is the product of deliberate policy choices by this Commission. While the Commission is free to change longstanding policies, it must have a reasoned basis for doing so, and an arbitration between two carriers is not the most appropriate forum to alter longstanding policies. If the Commission wishes to consider the radical change GNAPs proposes, it should do so in a generic proceeding in which all interested parties can participate.

Q. HAVE OTHER STATES REJECTED THE APPROACH GNAPS SUGGESTS?

A. Yes. A number of state Commissions have declined to adopt the originating carrier's local calling area for purposes of reciprocal compensation because they correctly understood the harmful policy consequences of doing so.

For example, the Texas Public Utility Commission rejected the LATA-wide reciprocal compensation approach (proposed there by AT&T), holding that the ILEC's mandatory local calling areas were the appropriate basis for determining reciprocal compensation obligations. The Commission correctly observed that the LATA-wide proposal implicated ILEC access revenue streams and had "ramifications on rates for other types of calls, such as intraLATA toll calls," that were beyond the scope of a proceeding to address intercarrier compensation for local traffic. (*Proceeding to Examine Reciprocal Compensation Pursuant to Section 252 of the Federal Telecomm. Act of 1996*, Arbitration Award, Tex. P.U.C. Docket No. 21982, 2000 Tex. PUC Lexis 95; 203 P.U.R. 4th 419 (2000).)

In California, GNAPs made the same LATA-wide calling proposal it makes here. In the Draft Arbitrator's Report ("DAR"), the Administrative Law Judge presiding over the arbitration between GNAPs and Verizon has recommended allowing GNAPs the liberty to designate its local calling areas for ***retail*** purposes but rejected the

LATA-wide calling concept for intercarrier compensation purposes. *In the Matter of Global NAPs, Inc. (U-6449-C) Petition for Arbitration of an Interconnection Agreement with Verizon California Inc. f/k/a GTE California Inc. Pursuant to Section 252(b) of the Telecommunications Act of 1996*, App. No. 01-12-026, Draft Arbitrator's Report (April 8, 2002) ("*California DAR*"), pp. 50-52.

Likewise, in Ohio, an Arbitration Panel of the Public Utilities Commission of Ohio recommended rejection of GNAPs' proposal to circumvent the existing access charge regime through its unilateral definition of local calling areas. *See In the Matter of the Petition of Global NAPs, Inc. for Arbitration of Interconnection Rates, Terms, and Conditions and Related Arrangements with United Telephone Company of Ohio d/b/a Sprint*, Case No. 01-2811-TP-ARB and *In the Matter of the Petition of Global NAPs, Inc. for Arbitration of Interconnection Rates, Terms and Conditions and Related Arrangements with Ameritech Ohio*, Case No. 01-3096-TP-ARB, Arbitration Panel Report (March 28, 2002).

Q. HOW IS PROMOTION OF UNIVERSAL SERVICE RELATED TO THE EXISTING LOCAL/TOLL REGIME?

A. The historical purpose of local calling area designations is to distinguish local calls from toll calls, to which access charges apply. This Commission's access regime was established with the explicit objective of maintaining universal service. *See Intrastate Tel. Access*

Charges for Toll Use of Local Exchange Services, Order No. 12765, at 7 (1983). As the Commission has acknowledged, basic local residential rates are subsidized by revenues from other services, such as access. (*See, e.g.*, Report on Universal Service and Lifeline Funding Issues, Docket 980696-TP, vol. I, ch. III, p. 22 (Feb. 1999).) If the Commission requires payment of intercarrier compensation on a LATA-wide basis, access revenues—and thus the subsidy flows to basic local rates—will diminish.

The Commission cannot responsibly consider doing away with the local/toll distinction for purposes of applying intercarrier compensation without also considering the negative consumer effects of eliminating these access subsidy flows to basic local rates. The Commission cannot properly consider these effects in a two-party arbitration.

Q. WOULD GNAPS' PROPOSAL TO ALLOW IT TO UNILATERALLY DEFINE AWAY ACCESS CHARGES IN FAVOR OF RECIPROCAL COMPENSATION BE COMPETITIVELY NEUTRAL?

A. No. GNAPs' proposal would put Verizon and the IXCs at a competitive disadvantage with regard to intraLATA toll calling. GNAPs' calls within the LATA would be termed "local" and subject to reciprocal compensation. But an intraLATA call that involves an IXC would still be subject to access compensation rules. Verizon would, likewise, be subject to access compensation rules when it handles toll calls for its presubscribed customers, because Florida law requires Verizon to

impute access charges into its intraLATA toll rates. Applying different intercarrier compensation rules to the same type of calls would give GNAPs a significant, artificial competitive advantage in pricing its intraLATA calls (regardless of whether it deems them local calls or toll calls) versus pricing based on the cost structures that the IXC and Verizon (through imputation) face.

Q. PLEASE EXPLAIN FURTHER HOW ACCESS CHARGES ARE ASSESSED ON INTRALATA CALLS TODAY.

A. Access charges are applied to intraLATA toll calls as between a local carrier and an IXC and as between two local carriers.

For intraLATA toll calls carried by IXCs, the IXC pays the originating ILEC an originating access charge (the major components of which are an end-office switching charge, a transport charge, a carrier common line charge, an interconnection charge and a tandem switching charge) and the IXC pays the terminating ILEC a similar terminating access charge. In Verizon's territory, the sum of originating and terminating charges averages about $0.09 per minute, which the IXC recovers through its toll charges to its customer.

Q. DO THESE SAME ACCESS CHARGE STRUCTURES APPLY WHEN AN ALEC (RATHER THAN AN ILEC) ORIGINATES OR TERMINATES AN IXC'S INTRALATA TOLL CALL?

A. Yes, access charges were developed to address compensation

between all local exchange carriers and IXCs when those carriers collaborate to complete long distance calls. Verizon will bill the IXC access charges for whichever end of the call Verizon handles (originating or terminating). The ALEC, likewise, can be expected to charge the IXC an access rate for the other end of the call. The following depicts the various end-user charges and intercompany charges for intraLATA toll that occur under today's set of rules:

Table 1

Compensation Between (1) ILECs or ALECs and (2) IXCs When They Collaborate to Complete IntraLATA Toll Calls

(Current Rules)

ILEC or ALEC	**IXC**	**LEC or ALEC**
Originating Call		Terminating Call
Charges the IXC for originating access	Charges the end-user for toll service	Charges the IXC for terminating access

Q. WHAT HAPPENS TODAY WHEN THERE IS NO IXC INVOLVED, AND THE ILEC AND ALEC COLLABORATE TO COMPLETE AN INTRALATA TOLL CALL?

A. When an ILEC and an ALEC collaborate to complete an intraLATA toll call (excluding toll free services such as 800/888), the following compensation flows apply:

Table 2

Compensation Between ILECs and ALECs When They Collaborate to Complete IntraLATA Toll Calls

(Current Rules)

ILEC Originating Call	**ALEC Terminating Call**
Charges the end-user for toll service	Charges the ILEC for terminating access

ALEC Originating Call	**LEC Terminating Call**
Charges the end-user for toll Service	Charges the ALEC for terminating access

Q. IF A VERIZON CUSTOMER THAT IS PRESUBSCRIBED TO VERIZON FOR INTRALATA LONG DISTANCE MAKES A TOLL CALL TO ANOTHER VERIZON CUSTOMER, DOES VERIZON PAY ACCESS CHARGES?

A. Since the total call is handled by Verizon, there is no explicit payment of access charges. As I mentioned above, however, state law requires ILECs to "impute" the cost of access charges into their intraLATA toll rates. (Chapter 364, Section 364.051(6)(c)). This imputation requirement assures that Verizon's toll rates reflect a cost structure that is consistent with that of the IXCs; thus, assessment of access charges is competitively neutral as between Verizon and the IXCs that depend on Verizon's facilities for provisioning of their toll services.

Q. HOW WOULD GNAPS' POTENTIAL LATA-WIDE CALLING AREA FOR RECIPROCAL COMPENSATION PURPOSES FAVOR GNAPS RELATIVE TO OTHER CARRIERS?

A. The FCC requires the reciprocal compensation rate to equal the economic cost of the underlying facilities used to terminate traffic; this rule necessarily precludes inclusion of implicit support for universal service objectives. So under a LATA-wide reciprocal compensation structure, GNAPs' new cost structure for what was access traffic is now: Total Direct Cost of a GNAPs Call = GNAPs' Originating Facility and Transport Costs plus the ILEC's Reciprocal Compensation Charge. Thus, whereas GNAPs today would pay something toward universal service support through the access charge structure, it would pay nothing under the LATA-wide reciprocal compensation proposal—again, because reciprocal compensation, unlike access charges, does not include any implicit support for the advancement and preservation of universal service. Because significant amounts of such support continue to exist in the IXCs' toll cost structure and in the ILECs' imputed toll cost structure, the IXCs and the ILECs are artificially disadvantaged in their provision of toll vis a vis GNAPs.

Q. WILL GNAPS' PROPOSAL CREATE NEW ARBITRAGE OPPORTUNITIES?

A. Yes. GNAPs' approach enhances its opportunities to arbitrage Verizon's existing rate structures. Notice that when ILECs or ALECs

collaborate with an IXC to complete long-distance calls under the LATA-wide approach, the inter-company compensation with the IXC would be the same as it is now:

Table 3

Compensation Between (1) ILECs or ALECs and (2) IXCs When They Collaborate to Complete IntraLATA Toll Calls

(LATA-wide Reciprocal Compensation Scenario)

ILEC or ALEC	**IXC**	**LEC or ALEC**
Originating Call		**Terminating Call**
Charges the IXC for Originating access	Charges the end-user for toll service	Charges the IXC for terminating access

But under the LATA-wide reciprocal compensation scenario, when an ILEC and an ALEC collaborate to complete what was previously an intraLATA toll call (excluding toll free services such as 800/888), terminating access charges would be replaced with a reciprocal compensation charge (which is significantly less than access charges):

Table 4

Compensation Between ILECs and ALECs When They Collaborate to Complete IntraLATA Toll Calls

(LATA-wide Reciprocal Compensation Scenario)

ILEC Originating Call	**ALEC Terminating Call**
Charges the end-user for toll Service	Charges the ILEC the reciprocal compensation rate
ALEC Originating Call	**LEC Terminating Call**
Charges the end-user for toll Service	Charges the ALEC the reciprocal compensation rate

The point is that competitive neutrality must be evaluated by looking at all the participants in the marketplace, not just a selected few. GNAPs' LATA-wide reciprocal compensation approach ignores this simple fact. It would confer upon itself an artificial cost advantage because GNAPs, unlike the IXCs and the ILECs, would pay nothing to support universal service. Nothing about GNAPs' proposal is competitively neutral.

Q. WOULD USING THE ORIGINATING CARRIER'S RETAIL LOCAL CALLING AREA TO DEFINE LOCAL CALLING AREA FOR RECIPROCAL COMPENSATION PURPOSES FAVOR GNAPS OVER VERIZON?

A. Yes. This approach is administratively infeasible and fraught with irrational outcomes. It could enable GNAPs to pay lower reciprocal compensation rates for outbound traffic, to receive higher access rates for inbound traffic, or even a combination of the two, exacerbating the problems identified in relation to LATA-wide reciprocal compensation.

A simple example will prove the unacceptable nature of this proposal. Tampa and Sarasota are not in the same Commission-approved

Verizon local calling area. But under the originating carrier scenario, they could be in the same GNAPs local calling area. In that situation, when a Verizon Tampa subscriber calls a GNAPs Sarasota subscriber, Verizon would be required to pay GNAPs access to terminate the call. However, under this hypothetical situation, when a GNAPs customer in Sarasota calls a Verizon customer in Tampa, GNAPs avoids paying Verizon's terminating access charges and instead pays only the lower reciprocal compensation rate. Thus, for identical calls between Tampa and Sarasota, GNAPs would collect a higher rate for calls from Verizon customers, but pay a lower rate for calls originated by its customers. The inequity of basing intercarrier compensation on the originating carrier's local calling areas is obvious. Like the LATA-wide compensation plan, this plan is not competitively neutral and would encourage gaming of the system.

Using the above situation to illustrate how GNAPs could game the intercarrier compensation system, assume that GNAPs markets outbound calling services. GNAPs could establish a large "local" calling area for its retail customers, and would, under this misguided proposal, pay the lower reciprocal compensation rate for calls that would otherwise be subject to terminating access charges. But GNAPs might instead choose to market inbound calling services. In that case, it would charge higher terminating access rates for its inbound traffic—for calls between the same local exchange carriers and the same geographic points to which it pays the lower reciprocal

compensation rate.

The direction of the call should play no part in the determining how intercarrier compensation should be assessed.

Q. PLEASE COMMENT ON THE ADMINISTRATIVE PROBLEMS ASSOCIATED WITH USING THE ORIGINATING CARRIER'S RETAIL LOCAL CALLING AREA FOR RECIPROCAL COMPENSATION PURPOSES.

A. Allowing the originating carrier to define the local calling area for intercarrier compensation purposes would be administratively infeasible. Each ALEC interconnecting with Verizon could have its own originating local calling area, or multiple local calling options; given their regulatory freedom, these ALECS may change their calling areas any time virtually at will. Not only the ILECs—but every ALEC—would have to attempt to track these changes and build and maintain billing tables to implement each local calling area and associated reciprocal compensation application. Administration is even further complicated if one assumes that local calling areas may extend within or beyond LATA, or even state boundaries.

For reasons of equity and practicality, a uniform standard must be used to determine whether a call is subject to the payment of reciprocal compensation or access charges. That standard has been and should continue to be whether the call originates and terminates

within Verizon's local calling area; it brings the highest degree of competitive neutrality among ILECs, IXCs, and ALECs when assessing access or reciprocal compensation.

Q. ASIDE FROM COMPETITIVE NEUTRALITY PROBLEMS, HOW WOULD INTERCARRIER COMPENSATION BASED ON THE ORIGINATING CARRIER'S RETAIL LOCAL CALLING AREA AFFECT THE COMMISSION'S MISSION TO PROMOTE UNIVERSAL SERVICE?

A. To the extent that GNAPs can substitute reciprocal compensation payments for access charge payments, it also avoids supporting universal service. As I've explained, access charges include contributions to basic local rates, while reciprocal compensation payments do not. Thus, GNAPs' proposal to use its retail local calling area to define reciprocal compensation obligations directly conflicts with the objective of preserving and advancing universal service. There is no explicit universal service fund in Florida, so all state support for universal service is generated implicitly within the ILECs' rate structures--whether through switched access, toll, or other rate elements. Paying reciprocal compensation rates for what have always been designated as access traffic allows GNAPs to take implicit universal service support flows out of the system—contrary to Congress' expressed intention in § 254(d) of the Act for all carriers to equitably contribute to preservation and advancement of universal service.

Q. IS GNAPS' PROPOSAL TO USE ORIGINATING CARRIER'S RETAIL LOCAL CALLING AREA TO ASSESS RECIPROCAL COMPENSATION CONSISTENT WITH FLORIDA LAW?

A. I am not a lawyer, but the Florida Statutes seem to prohibit circumvention of access charges for terminating calls. Specifically § 364.16(3)(a) states:

> No local exchange telecommunications company or alternative local exchange telecommunications company shall knowingly deliver traffic, for which terminating access service charges would otherwise apply, through a local interconnection arrangement without paying the appropriate charges for such terminating access service.

For at least 15 years since this Commission established its access regime, all providers have known exactly what traffic constituted calls to which terminating access charges would apply. Redefining GNAPs' traffic (and only GNAPs' traffic) through implementation of LATA-wide reciprocal compensation or through intercarrier compensation based on the originating carrier's retail local calling area seems to be exactly the kind of end-run around access charges that the Legislature intended to prevent.

Q. IS GNAPS' PROPOSAL TO USE THE ORIGINATING CARRIER'S RETAIL LOCAL CALLING AREA TO ASSESS RECIPROCAL COMPENSATION CONSISTENT WITH THE COMMISSION'S

DECISION AS TO VIRTUAL NXX CALLS IN THE GENERIC DOCKET?

A. No. At its December 5, 2001 Agenda Conference, the Commission ruled that carriers should be permitted to assign telephone numbers to users physically located outside the rate center to which those telephone numbers are homed; *and* that intercarrier compensation for these "virtual NXX" calls should be based upon the physical end points of the call. The Commission accepted Staff's conclusion that "calls to virtual NXX customers located outside of the local calling area to which the NPA/NXX is assigned *are not local calls for purposes of reciprocal compensation.*" (Staff Rec. at 94 (emphasis added).) Under this rationale, virtual NXX calls are not local calls for intercarrier compensation purposes, because their end points are not within the same local calling area *of the ILEC.* "Staff believes that the classification of traffic as either local or toll has historically been, and should continue to be, determined based upon the end points of a particular call." (Staff Rec. at 93.) "[I]t seems reasonable to apply access charges to virtual NXX/FX traffic that originates and terminates in different local calling areas." (Id. at 95.)

The Commission has thus held that intercarrier compensation obligations are determined by reference to the ILECs' established local calling areas. Under the Commission's decision in the generic docket, an ALEC is free to market virtual NXX service, but virtual NXX traffic is *not* local for purposes of applying reciprocal compensation because

they traverse ILEC local calling area boundaries. If the Commission adopts GNAPs' proposal, however, reciprocal compensation will apply to all calls with the area GNAPs defines—even on these calls the Commission has already determined are not local.

The Commission has already determined that the existing local/toll distinction embodied in the ILECs' tariffs and understood by all carriers should drive intercarrier compensation. This same logic requires rejection of the originating carrier's retail local calling area.

Q. IF THE COMMISSION REJECTS GNAPS' PROPOSAL TO BASE INTERCARRIER COMPENSATION ON THE ORIGINATING CARRIER'S RETAIL LOCAL CALLING AREA, WILL GNAPS NEVERTHELESS BE FREE TO ESTABLISH LOCAL CALLING AREAS THAT DIFFER FROM VERIZON'S FOR RETAIL PURPOSES?

A. Yes. All carriers should remain free to determine their own retail calling areas. Continuing to use existing local/toll conventions to determine intercarrier compensation obligations will not affect GNAPs' ability to define its own retail local calling areas in any manner it wishes.

III. ISSUE 5: VIRTUAL NXX

Q. BEFORE DISCUSSING THE VIRTUAL NXX ISSUE BETWEEN THE PARTIES, PLEASE DEFINE THE TERMS RELEVANT TO THE

DISCUSSION.

A. Several terms and concepts discussed in my testimony, though commonly used, are often misapplied or misunderstood. As a foundation for understanding the "virtual NXX" discussion, I use the following definitions:

An "**exchange**" is a geographical unit established for the administration of telephone communications in a specified area, consisting of one or more central offices together with the associated plant used in furnishing communications within that area.

An "**exchange area**" is the territory served by an exchange.

A "**rate center**" is a specified location (identified by a vertical and horizontal coordinate) within an exchange area, from which mileage measurements are determined for the application of toll rates and private line interexchange mileage rates.

An "**NPA**," commonly known as an "area code," is a three-digit code that occupies the first three (also called "A", B and C") positions in the 10-digit number format that applies throughout the North American Numbering Plan ("NANP") Area, which includes all of the United States, Canada, and the Caribbean islands. There are two kinds of NPAs: those that correspond to discrete geographic areas within the NANP Area, and those used for services with attributes, functionalities, or requirements that transcend specific geographic boundaries (such as NPAs in the N00 format, *e.g.*, 800, 500, etc.). *See* "NPA" in the *Glossary*

of the "Central Office Code (NXX) Assignment Guidelines," INC 95-0407-008, April 11, 2000.

An "**exchange code**" is a three-digit code – also known as an "NXX," an "NXX code," a "central office code" or a "CO code" – that occupies the second three ("D, E and F") positions in the 10-digit number format that applies throughout the NANP Area. *See* "exchange code" in the *Glossary of the 'Central Office Code (NXX) Assignment Guidelines,"* INC 95-0407-008, April 11, 2000. Exchange codes are generally assigned to specific geographic areas. However, some exchange codes are non-geographic, such as "N11 " codes (411, 911, etc.) and "special codes" such as "555." An exchange code that is geographic is assigned to an exchange located, as previously mentioned, within an area code.

When a four-digit line number ("XXXX") is added to the NPA and exchange code, it completes the 10-digit number format used in the NANP Area and identifies a specific customer located in a specific exchange and specific state (or portion of a state, for those states with multiple NPAs). This 10-digit number is also known as a customer's unique telephone number or "**address**." *See* "NANP" in the *Glossary of the "Central Office Code (NXX) Assignment Guidelines,"* INC 95-0407-008, April 11, 2000.

Q. WHY IS A CUSTOMER'S 10-DIGIT "ADDRESS" SIGNIFICANT?

A. A customer's telephone number or "address" serves two separate but related functions: (1) proper call routing and (2) rating. In fact, each exchange code or NXX within an NPA is assigned to ***both a switch,*** identified by the Common Language Location Identifier ("CLLI"), ***and a rate center***. As a result, telephone numbers provide the network with specific information (*i.e.*, the called party's end office switch) necessary to route calls correctly to their intended destinations. At the same time, telephone numbers also identify the exchanges of both the originating caller and the called party to allow each carrier to "rate" or charge either the retail end-users or the other carriers for the call. It is this latter function of assigned NXX codes – the proper rating of calls– that is at the heart of the "virtual NXX" issue.

Q. HOW DOES THE TELEPHONE NUMBER OR "ADDRESS" PLAY A ROLE IN PROPERLY RATING AN INDIVIDUAL CALL?

A. ILECs' tariffs and billing systems use the NXX codes of the calling and called parties to ascertain the originating and terminating rate centers/exchange areas of the call. This information, in turn, is used to properly rate the call for the retail end-user. If the rate center/exchange area of the called party, as determined by the called number's NXX code, is included in the originating subscriber's "local calling area," then the call is established as a "local" call. If the rate center/exchange area of the called party – again determined by the NXX code of the called number – is outside the local calling area of the caller, then the call is determined to be "toll." Thus, the rate centers of

calling and called parties, as expressed in the unique NXX codes assigned to each rate center/exchange area, enable the ILEC to properly rate calls as either local or toll.

Q. HAVE NXX CODES TRADITIONALLY PLAYED A ROLE IN INTERCARRIER COMPENSATION?

A. Yes. Although not determinative of the underlying intercarrier compensation owed, carriers have traditionally exchanged NPA/NXX information in order to facilitate classification and rating of calls for intercarrier compensation purposes.

Q. WHAT IS A "VIRTUAL NXX"?

A. A "virtual NXX" is an entire exchange code obtained by a carrier and designated by that carrier for a rate center/exchange area in which the carrier has no customers of its own, nor facilities to serve customers of its own. Instead, the exchange code is used by the carrier for the sole purpose of assigning telephone numbers to its end users physically located in exchanges other than the one to which the code was assigned. The term was coined a few years ago to describe an arrangement ALECs devised to provide their customers – generally ISPs – with a phone number that would appear "local" to a broad region of potential callers.

Q. IF GNAPS OBTAINS A VIRTUAL NXX FOR ITS CUSTOMER, DOES THAT CHANGE THE ROUTING OF CALLS TO THAT GNAPS

CUSTOMER?

A. No. If a Verizon end-user originated a call to the GNAPs customer with the virtual NXX, Verizon's systems would recognize the GNAPs-assigned NXX code and route the call to GNAPs' switch (or other physical Point of Interconnection as GNAPs designates) for delivery by GNAPs to its end user (the called party).

Q. WHAT IS THE PURPOSE OF ASSIGNMENT OF A VIRTUAL NXX?

A. Historically, ALECs use a virtual NXX for two main purposes. First, the virtual NXX allows an ALEC to alter the industry pricing convention by which the calling party typically pays to complete a call, with no charge levied on the called party. In the virtual NXX scenario, the calling party is "tricked" into dialing an NXX that appears to connect to another party ***within*** that calling party's exchange. Although the NXX connects the calling party to another party ***outside*** the calling party's exchange, no toll charge can be fairly levied on the calling party. In this respect, the virtual NXX serves the same purpose as services such as "toll free" (e.g., 1+800/877/888), "collect," third party billing, and Foreign Exchange (or "FX") services.

Second, because ILECs have no information about the location of an ALEC's customer, ALECs have used virtual NXXs to trick ILEC billing systems in two ways. As described above, the ILEC does not assess a toll charge on its end-user dialing the ALEC's customer outside the local calling area, because the only information the ILEC has is the

virtual NXX and not the actual geographic location of the ALEC's customer. The ILEC also does not assess appropriate access charges that it normally would charge an "interexchange" carrier, but rather pays reciprocal compensation to the ALEC, because the call appears to the ILEC billing systems as "local."

ALECs typically assign virtual NXX codes to customers that are expected to receive a high volume of incoming calls from ILEC customers within the exchange associated with the NXX. In one common arrangement, an ALEC allows an ISP to collocate with the ALEC switch, and then assigns that ISP telephone numbers associated with every local calling area within a broad geographic area -- a LATA, or an entire state, for example. The ISP would then be able to offer all of its subscribers a local rate access number without having to establish more than a single physical presence in that geographic area. If the ISP had been assigned an NXX associated with the calling area in which it is located, many of those calls would be rated as toll calls. In that situation, not only does the ALEC avoid access charges, it collects reciprocal compensation on the incoming calls.

Had the ALEC legitimately provided its ISP customer with a one-way/inward toll-free number service, the customer with the toll-free 800, 877 or 888 number (*i.e.,* the ISP) would pay to receive all incoming calls, the terminating carrier (the ALEC) would pay the originating carriers (*e.g.*, Verizon, independent telephone companies)

carrier access charges, and the callers would reach the ISP free of charge. However, under the virtual NXX scheme employed by some, ALECs receive an 800-like arrangement, with Verizon bearing the costs to transport their traffic without compensation, and typically paying reciprocal compensation.

Q. IF GNAPS OBTAINS A VIRTUAL NXX FOR ITS CUSTOMER, SHOULD THAT AFFECT THE INTERCARRIER COMPENSATION OWED?

A. No. As the Commission recognized in the generic docket I discussed earlier, carriers can assign phone numbers to customers located outside the geographic area with which the NPA/NXX is associated, but the actual end points of the call will govern intercarrier compensation.

Q. DOES VERIZON PROPOSE CONTRACT LANGUAGE THAT PROHIBITS ASSIGNMENT OF VIRTUAL NXX CODES?

A. No. Verizon proposes no contract language that affects whether or not GNAPs may assign telephone numbers to end users located outside of the rate center to which these telephone numbers are homed. Rather, Verizon's proposed contract language ensures that GNAPs cannot impermissibly alter the appropriate intercarrier compensation due by virtue of GNAPs' "virtual" assignment of NPA/NXX codes. To that end, and consistent with the Commission's decision in the generic docket, Verizon's proposed contract language ensures that traffic is not subject

to reciprocal compensation unless it originates and terminates within Verizon's local calling area.

Q. WHAT IS THE APPROPRIATE INTERCARRIER COMPENSATION FOR VIRTUAL NXX TRAFFIC?

A. GNAPs' virtual NXX traffic is not local in nature, so it should not be subject to reciprocal compensation (which applies only on local calls). Access charges should continue to apply to these calls. Virtual NXX traffic is interexchange telecommunications, as evidenced by the end points of the call.

In addition, if virtual NXX traffic is deemed subject to reciprocal compensation, Verizon would be required to pay terminating reciprocal compensation to GNAPs despite the fact that Verizon would be responsible for hauling the traffic beyond Verizon's local calling scope. As discussed in connection with Issue 4, Verizon's basic local exchange rates are below their relevant costs, and therefore are not necessarily designed to recover the cost Verizon incurs just to route traffic ***within*** the basic local exchange. If Verizon is required to route traffic ***beyond*** the local calling scope and to ***pay*** reciprocal compensation, while collecting only the basic local exchange rates from the Verizon retail end-user, then Verizon is not fairly compensated for the virtual NXX traffic.

Again, the Commission has already found that virtual NXX calls are not

local calls requiring payment of reciprocal compensation. *See* Florida Public Service Commission Docket Vote Sheet, Issue 15 (Dec. 15, 2001); Recommendation of the Staff of the Florida Public Service Commission at 88-89 (Nov. 21, 2001).

Q. GNAPS SEEMS TO ALLEGE THAT ITS VIRTUAL NXX SERVICE IS JUST LIKE VERIZON'S TRADITIONAL FOREIGN EXCHANGE ("FX") SERVICE (GNAPs' PETITION AT 21-23). IS VERIZON'S FX SERVICE JUST LIKE GNAPs' VIRTUAL NXX ARRANGEMENT?

A. No. GNAPs' virtual NXX arrangement is not "just like" Verizon FX service. While the two services are functionally alike, the similarity ends there.

Verizon's FX service is a toll substitute service. It is a private line service designed so that a calling party in the "foreign" exchange may place to the FX customer, located outside the caller's local calling area, what ***appears*** to be a local call. As discussed earlier, if FX service were truly a local call, the called party would not be subject to additional charges. The called party (the FX subscriber), however, agrees to pay (on a flat-rate basis) the additional charges which the calling party would otherwise have to pay to transport the call beyond the caller's local calling area to the exchange where the FX customer's premises are located. FX service has been in existence for decades as a way for a customer to give the appearance of a presence in another local calling area – for example, in the local calling area of its

potential customers for an FX business customer. The FX customer does so by subscribing to basic exchange service from the "foreign" switch and having its calls from that local calling area transported over a private line, ***which it also pays for,*** from the distant local calling area to its own premises. En route, the call is transported through the FX customer's own end office where it is connected, without being switched, to the customer's local loop.

When ALECs provide virtual NXX service, however, the ILEC handling the virtual NXX traffic is not compensated for its transport of calls to a rate center which is outside the normal local calling scope. Unlike real FX service, moreover, virtual NXX does not use lines dedicated to a customer for transporting the call between rate centers and forces the originating carrier to bear the financial burden of the terminating caller's decision to provide a virtual NXX service. Instead, it tricks Verizon's billing systems into "rating" the call as local, rather than toll. In addition, for FX service, the end user customer compensates Verizon for the ability to receive calls from only *one* other rate center. If a customer chose to have FX service from all of the rate centers within a LATA, his total monthly FX charges would be correspondingly much greater (in order to compensate Verizon for transporting the traffic outside of the local calling area from across the LATA).

It is important to note that Verizon's FX service was not devised as a way to avoid transport costs and to collect reciprocal compensation.

But some ALECs do use virtual NXX virtual NXX/FX numbers to make calls appear local both to the Verizon customer placing the call and to Verizon, the carrier originating the call for its customer. And because the call appears local to Verizon, based on the ALEC customer's NXX code, the ALEC declares the call local and bills Verizon reciprocal compensation. However, it is Verizon, not the ALEC, that is transporting the call from the caller's local calling area (the "foreign" exchange) to the ALEC's switch – transport for which Verizon is not compensated. From there, the ALEC simply hands off the call to the virtual FX customer usually collocated with the ALEC and proceeds to bill Verizon for reciprocal compensation, as if the call was local.

Q. DOES VERIZON'S PROPOSAL PROVIDE FOR FAIR COMPENSATION ASSOCIATED WITH "VIRTUAL NXX" RELATIVE TO VERIZON'S FX SERVICE?

A. Yes. As I have explained, there are very real differences in these services. However, GNAPs may choose to use a virtual NXX approach, compensating Verizon pursuant to applicable access charges for the interexchange transport. GNAPs alternatively may choose to use a Verizon FX service through which GNAPs would be financially responsible for establishing dedicated transport facilities between exchanges.

Q. DOES GNAPS' PROPOSED VIRTUAL NXX APPROACH REPRESENT A TECHNOLOGICAL ADVANCE?

A. No. Virtual NXX service is hardly a state-of-the-art technology and is certainly not necessary to provide customers toll-free calling. Telephone companies have been offering toll-free service for more than 20 years. In fact, the ALEC number assignment action forces originating ILECs like Verizon (1) to treat the call at the originating switch as a local call for billing and switch routing purposes, and then (2) to transport the call over Verizon facilities (at Verizon's expense) to the distant ALEC point of interconnection. This is much like how Verizon would transport a toll call or an originating access call – existing services for which Verizon would be compensated by the originating toll user or the interexchange access customer, respectively. The only thing that's "new" here is the scheme to manipulate intercarrier transport and compensation in a manner to shift all of the costs to Verizon, and then, instead of compensating Verizon for the services provided, to prevent Verizon from billing either the originating customer or the receiving ALEC – and then to bill reciprocal compensation to Verizon! There is not any aspect of the virtual NXX service that would be considered new or state-of-the-art from a technology perspective.

Q. PLEASE SUMMARIZE VERIZON'S RECOMMENDATION TO THE COMMISSION ON THIS ISSUE.

A. The Commission should affirm that virtual NXX calls are *not* local calls and that Verizon is not required to pay reciprocal compensation – or any intercarrier compensation – for these calls. The Commission

should direct GNAPs to recover its costs from its own virtual NXX customers, rather than from Verizon. This would be consistent with the way Verizon recovers its costs for its own FX service – from its FX customer, the ***called*** party. To the extent that GNAPs chooses to offer an FX-like, interexchange toll replacement service to its customers through the use of virtual NXX numbers, then GNAPs should be responsible for providing the transport associated with the FX-like service. GNAPs should not market a toll substitute service to its customers and then provide the service by forcing Verizon to provide the underlying associated transport with no compensation. When Verizon provides FX service to its end user customers, the service includes a charge for the transport. When GNAPs decides to use Verizon's network to provide interexchange service without purchasing dedicated transport, then the Commission should leave the applicable access regime undisturbed.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.